THE BUSINESS PLAN

The following checklist is an outline you can use to make sure that important points are covered in your summary. These Guidelines are a suggestion. Your business may need to stress different points. If so, make sure that they are included.

Description of Business

1. Business form: proprietorship, partnership, or corporation?
2. Merchandising, manufacturing or service?
3. What is the product?
4. Is it a new business? A take-over? An expansion?
5. Why will your business be profitable?
6. When is your business open?
7. Is it a seasonal business?
8. What have you learned about your kind of business from outside sources (trade suppliers, banks, other business people, publications)?

The Market

1. Who is your market? DEFINE YOUR MARKET!
2. How are you going to satisfy your market's wants?
3. How will you attract and hold your share of the market?
4. How are you going to price your product?

Competition

1. Plan to keep an eye on the competition.
2. Who are your nearest competitors?
3. How is their business?
4. What have you learned from their operation?

Location of Business

1. Plan to keep an eye on any demographic shifts in your area.
2. What are your location needs?
3. What kind of building do you need?
4. Why is this a desirable area? a desirable building?

Management

1. How does your background/business experience help you in this business? Also, for your own benefit, what weaknesses do you have and how will you compensate for them, i.e.: what related work experience have you had?
2. Who is on the management team?
3. What are the duties of each individual on the management team?
4. Are these duties clearly defined? How?
5. What additional resources have you arranged to have available to help you and your business?

Personnel

1. Plan for training personnel for both operations and management.
2. Wages: Salary or hourly? Overtime? Fringe benefits? Taxes?
3. What are your personnel needs now?
4. What will your needs be in five years?

Application and Expected Effect of Loan

1. How will the loan (or other injection of new funds) make your business more profitable?
2. Should you buy or lease?
3. Do you need this money? Establish a procedure for making borrowing decisions. Plan your borrowing.
4. How is the loan to be applied?

Part 1. The Business

This is the most important and most difficult part of your business plan. The objective of this section is to make a clear statement of:

1. What the business is (or will be);

2. What market you intend to service, the size of the market and your expected share;

3. Why you can service that market better than your competition;

4. Why you have chosen your particular location;

5. What management and other personnel are available and required for the operation; and

6. Why (if appropriate) debt money or someone's equity investment will make your business more profitable.

These six considerations are crucial. They are the written POLICY of your business, rules you should not deviate from without compelling reasons. POLICY gives direction and stability to your business. As such, it requires a great deal of thought and planning. If you can't describe your idea clearly and simply, you haven't thought it through.

Remember that technical support for your business idea will be found primarily in the FINANCIAL DATA section and the SUPPORTING DOCUMENTS. In the section (THE BUSINESS), reference the supporting data as needed. Too much detail would get in the way of explaining your idea.

A. Description of Business

The objective of this section is to explain

- What your business is;
- how you are going to run it; and
- why you think your business will be successful

Deciding what your business is – and what it will be in five years – is the most important decision you will have to make. A small business may be involved in more than one activity: If so, the judgment of what the central activity is (or what the central activities are) is crucial. Your entire planning effort is based on your perception of what business you are in. If you make a serious error at this point, your chances of success will be sharply diminished. So be sure to take the time to think this decision through.

The Description of Business includes:

1. The type of business: Is your business primarily merchandising, manufacturing, or service?

2. The status of business: Is your business a start-up? an expansion of a going concern? a take-over of an existing business?

3. The business form: sole proprietorship, partnership or corporation? (Your attorney's and accountant's advice is essential on this item.)

4. Why is your business going to be profitable?

5. When will (did) your business open?

6. What hours of the day and days of the week will you be (are you) in operation?

7. If yours is a seasonable business, or if the hours will be adjusted seasonally, make sure that the seasonality is reflected in your replies to 5 & 6.

You will not have a complete answer to Item 4 yet since it is partially answered in FINANCIAL PROJECTIONS. Keep it in mind until you do. The answer should come out as your business plan progresses. Items 5, 6 & 7 are particularly important for merchandising and service businesses. These are critical marketing concerns, which will be further considered in the next section.

Since start-ups and take-overs face different kinds of problems, they are treated separately on the following pages. The checklists provided are in addition to Items 1 through 7.

For a New Business

Your description of the business should contain responses to the following (as well as the seven items previously listed):

1. Why will you be successful in this business?

2. What is your experience in this business?

3. Have you spoken with other people in this kind of business? What was their response?

4. What will be special about your business?

Many businesses fail to take advantage of the insights and experience of possible competitors. They are your best single source of information and will often give you much valuable advice for nothing more than a chance to show their expertise. Talking with them (and observing their business practices) will also help you define what the special advantages of your own business will be.

5. Have you spoken with prospective trade suppliers to find out what managerial and/or technical help they will provide?

6. Have you asked about trade credit?

Trade credit is a source of funds. Terms such as "net due in 30 days" allow you to use the supplier's money for the 30 days – it's like non-interest bearing loan for that period. However, this means that you forego the cash discount frequently available if paid within 10 days. Taking the discount can represent a substantial savings on the cost of his product: If the terms are 2/10, N/30, by paying within 10 days, you save 2% of net. The cash discount represents an annual interest rate of 36%. If you can borrow funds somewhere else for less interest, you should take advantage of the savings. Such credit is often not available until a business has been in operation for a length of time sufficient to establish a reputation for paying on time. Many suppliers also offer free services as an inducement to buy their product. For instance, store fixture manufacturers give free layout advice; utility companies give hints on how effective use of light can create more sales.

7. If you will be doing any contract work, what are the terms? Reference any firm contract or letter of intent, and include it as a supporting document.

This is especially important for anyone contemplating contract work: FIND OUT HOW AND WHEN YOU WILL BE PAID. Get a feel from other contractors about their experiences. A slow paying customer can put you out of business if you aren't prepared. If slow payment is a fact of life for your business, plan for it.

8. How will you offset the slow payment by the customer?

For a Take-Over

Your Description of Business should contain a brief history of the business you plan to take over and include some response to the following questions:

1. When and by whom was the business founded?

2. Why is the owner selling it?

3. How did you arrive at a purchase price for the business?

Businesses which are strong and growing are rarely offered for sale and most sellers will give – not necessarily deliberately – misleading reasons for selling their business. Protect yourself. Ask your banker to check out the business. This is a normal activity for him, and he has the means available to find out information you may not be able to get. If your lawyer or accountant is experienced, ask him. Pricing a business requires professional expertise and ethics. Paying for a professional appraisal may turn out to be an excellent investment as it not only establishes a fair price for the business but also provides justification for the price if outside financing is needed. Include a copy of the appraisal as supporting document. The price should reflect the assets of the business, the rate of expected income on your investment, and perhaps a goodwill factor (sometimes a business has patents which can be capitalized, an excellent reputation for service or an advantageous lease.)

Since you will be repaying the purchase price out of profit, make sure that you are getting what you are paying for.

4. What is the trend of sales?

5. If the business is going downhill, why? How can you turn it around?

6. How will your management make the business more profitable?

Items 4 and 5 should be supported by income statements and tax return. REMEMBER, if a business is sliding downhill, there may be reasons which aren't immediately obvious. Check out the owner's reasons. Ask his bankers. It is difficult to restore a tarnished reputation, and it cannot be done overnight.

Some additional thoughts to keep in mind as you check out the business. Have you evaluated and aged the inventory? checked with trade creditors? aged the receivables? What is the condition and age of operating machinery? Does the business owe money – and if it does, will you inherit the liabilities?

Determine Exactly What You Are Buying

You are planning to put your money on the line. Don't be afraid to ask for advice before you commit yourself to any deal. A good attorney is essential at this point to help determine what you are buying and to make sure that the terms of the sale are in your favor.

B. The Market

In order to generate a consistent and increasing sales flow, you must become knowledgeable about your market – the people who will be buying your service, product, or merchandise.

The basic marketing considerations are:

1. Who is your market?

2. What is the present size of the market?

3. What percent of the market will you have?

4. What is the market's growth potential?

5. As the market grows, does your share increase or decrease?

6. How are you going to satisfy your market?

7. How are you going to price your service, product, or merchandise to make a fair profit and, at the same time, be competitive?

Many businessmen, the more successful ones, consider marketing skills to be of prime importance. Once you clearly identify the market you wish to service, you can then focus on Items 2 through 7 in a coherent way. Your first problem then is to:

Define Your Market

In marketing terminology, define your target market. This term is especially useful because that market is the target for all of your efforts. Defining the target market is done in a logical fashion by considering:

- Who needs your service?
- Who needs your product?
- Who buys the kind of merchandise you stock?

It may be necessary to change your service, product, or merchandise mix to meet the needs of the market you have targeted (Item 6) or make rational price adjustments (Item 7).

However, you first must know exactly who your market is. Perhaps it is defined by geographic location, socioeconomic or ethnic factors, age, or sex, or any of a thousand other conditions. Whatever they are, make sure you identify them. One way to do this is to simply list all of the important characteristics and then, by using census data or other information, find out to what extent these characteristics are present in different areas.

Your target market, the market you have selected to serve, must be measured. Having too few customers puts you out of business. Although your business will receive cash from four sources – 1) sales, 2) loan proceeds, 3) sale of fixed assets, and 4) proceeds of new investment – it will ultimately rely on SALES as the main source of money. If there are no sales, there is no business.

You can obtain information about the size of your market from your Chamber of Commerce, trade publications, marketing consultants, other businesspersons, schools, and colleges. An excellent source of information is the Federal Census Report which includes your area; you will find one in the nearest library. It is best to get help in assessing the market from such sources rather than trying to guess by watching passing traffic and hoping for the best. Good marketing strategy must be planned, and it must be based on good information.

When you have a feeling for your market, the following questions can be raised:

8. How will you attract and keep this market?

9. How can you expand your market?

10. What price do you anticipate getting for your product?

11. Is the price competitive?

12. Why will someone pay your price?

13. How did you arrive at the price? Is it profitable?

14. What special advantages do you offer that may justify a higher price (you don't necessarily have to engage in direct price competition?)

A Brief Note on Credit

Will you offer credit to your customers? If you give credit to your customers, you are, in effect, making a loan to them. Can you afford to do this? Do you have to extend credit? Can you evaluate credit risk? Can you collect? Can you afford to write off bad debts? Customer credit can represent an unexpected cash drain on the business. If you must offer credit, make sure that you plan how to absorb its effects – offering credit to your customers costs you money - especially if you then have to borrow funds to cover these accounts. It may strangle your business by tying up funds you could possibly use for other purposes.

C. Competition

If you have decided on your target market and it is large enough to be profitable and contains reasonable expansion possibilities, the next step is to check out your competition, both direct (similar operations) and indirect. Consider these questions:

1. Who are your five nearest competitors?

2. How will your operation be better than theirs?

3. How is their business: steady? increasing? decreasing? Why?

4. How are their operations similar and dissimilar to yours?

5. What are their strength and/or weaknesses?

6. What have you learned from watching their operations?

The objective of this section is to enable you to make your business more profitable by picking up the good competitive practices and avoiding the errors of your competitors. A common error is opening a business in a market that is already more than adequately serviced. Carefully viewing the competition will sometimes lead you to alter your basic business strategy of change existing operations to compete more effectively. This should be an ongoing practice since markets shift and success attracts competition.

D. Location of Business

Proper site location can help your business make money. If you are going into business, first try to locate the ideal site, then figure how close you can come to it, remembering that:

RENT IS THE COMBINATION OF SPACE AND ADVERTISING

Information about specific areas is available from Chambers of Commerce, industrial development commissions (they may also have information about tax breaks and financing incentives for businesses which will employ substantial numbers of people in towns under their commission), trade sources such as magazines and associations, planning commissions, bankers, and lawyers.

Do not go into business in a given spot simply because the price is low. Rent and purchase prices are usually fixed by market forces, and a low price can reflect low desirability. Although for some operations, exposure to people and accessibility for those people are most important. Sources of this information may be the state or local highway agencies, the local library, Chambers of Commerce, and large stores.

In this section of your business plan, you should answer the following:

1. What is you business address?

2. What are the physical features of your building?

3. Is your building leased or owned? State the terms.

4. If renovations are needed, what are they? What is the expected cost? Get quotes in WRITING from more than one contractor. Include quotes as supporting documents.

5. What is the neighborhood like? Does the zoning permit your kind of business?

6. What kind of businesses are in the area?

7. Have you considered other areas? Why is this one the desirable site for your business?

8. Why is this the right building and location for your business?

9. How does this location affect your operating costs?

The key to correct site selection is to keep in mind that a bad site can put you out of business, while a good site can increase your profits. Once you get started or if you are already located, keep a constant eye on changes in your location – new roads get built, populations shift from one class to another, people move, zoning ordinances change, and your business needs may change.

E. Management

According to various studies of factors involved in the failures of small business, roughly 98% of businesses fail because of managerial weakness; less than 2% of the failures are due to factors beyond control of the persons involved.

Your business plan must take this into account. If you are preparing a financing proposal, you should make sure that your prospective financing source is aware of what steps you have taken or are taking to correct any weaknesses in your managerial staff (yourself and any other managerial persons involved); if you are to use your business plan to its fullest extent, you should use this segment to highlight both strengths and weaknesses of management for your own sake.

The failure factor breakdown provides a guide:

45% - Managerial incompetence
9% - Inexperience in the line
18% - Inexperience in management
20% - Unbalanced expertise
3% - Neglect of business
2% - Fraud
1% - Disaster
98% - TOTAL

There is no known cure for incompetence – but there are very direct cures for inexperience or unbalanced experience: (1) get the necessary experience yourself, or (2) find a partner or employee who has the requisite experience. The final three items represent managerial failures because neglect of business, being victimized by fraud, or being put out of business by a disaster can almost always be prevented by foresight (insurance, for example).

In preparing the MANAGEMENT section, there are five areas to be covered:

1. Personal History of Principals

2. Related Work Experience

3. Duties and Responsibilities

4. Salaries

5. Resources Available to the Business

Properly treated, these five areas will help make a proposal more convincing and a business plan far more useful than could otherwise be the case. The aim is to spot areas of potential weakness before problems caused by them arise and put you out of business.

1. Personal History of Principals

This segment should include responses to the following questions:

1. What is your business background?

2. What management experience have you had?

3. What education have you had (including both formal and informal learning experiences) which have bearing on your managerial abilities?

4. Personal data: age; where you live and have lived; special abilities and interests; reasons for going into business.

The personal data needn't be a confession, but it should reflect where your motivation comes from. Without a lot of motivation, your chances of success are slight. It pays to be ruthlessly honest with yourself – even if you don't put the results on paper.

5. Are you physically up to the job? Stamina counts.

6. Why are you going to be successful at this venture?

Keep in mind that your family will be affected by your decision to go into business for yourself and try to assess the potential fallout; while they may be supportive now, will they continue to be?

7. A personal financial statement must be included as a supporting document in your business plan if it is a proposal for financing.

Bankers and other lending sources want to see as much collateral as possible to secure their loan. Be forewarned: Under most circumstances, the personal creditworthiness of the principals will be a major concern of the banker. Also, you will undoubtedly be expected to sign personally for the loan. This means that your personal assets may be taken if the business fails – even if the business is a corporation.

2. Related Work Experience

This segment is a detailed response to the experience factors mentioned earlier. It includes (but is not limited to) responses to the following:

1. Direct operation experience in this type of business;

2. Managerial experience in this type of business;

3. Managerial experience acquired elsewhere – whether in totally different kinds of businesses, or as an offshoot of club or team membership, civic activities, church work, or some other.

While some managerial skills are transferable, others are not.

Unbalanced managerial experience can cause serious problems. For example, the talents require of a financial specialist are quite different from those of a used-car salesman. Combination of both sets of talents in one individual is rare.

3. Duties and Responsibilities

Once you have written down the experience and skills (and have a feel for the weaknesses) of the proposed management, this segment becomes much simpler. Follow the rule:

ALWAYS BUILD ON STRENGTHS AND SEEK TO ALLEVIATE WEAKNESSES

This is a variant on "you can't make a silk purse of a sow's ear" – attempting to make a salesman out of a retiring clerk is folly. Attempting to make a sales manager out of your star salesmen may also be folly. Use individual skills to the business' advantage.

The scarcest asset you will have is time. To make the most of it, make sure that you budget your time carefully by spelling out, in advance,

- who does what;
- who reports to whom; and
- where the final decisions get made.

Include:

1. Time for planning and reviewing plans;

2. Major operating duties (purchasing, sales, personnel, promotion, production, and so forth) as appropriate for your business.

3. Planning

The purpose of your plan is to make your business run more smoothly. If you find you spend a lot of time solving yesterday's problems, stop, get out of the shop, sit down and start planning so you don't perpetually run in circles.

Allocating duties and responsibilities is critical. If the chain of command is unclear to your employees, you will have the worse kinds of personnel problems. This is a major responsibility of management and must not be evaded under the guise of "we can work it out later when we see where the problems are."

4. Salaries

A simple statement of what the management will be paid is sufficient. Just remember, cut the fat from your personal budget, add 15% for contingencies, and then stick to it. Many deals never get going because bankers feel the principals are getting paid more than they should; other deals self-destruct when the rockbottom figure, unrealistic to begin with, is altered without planning, thus throwing the business budget out of kilter. Be realistic, but don't be greedy. The payoff comes in the future – after the business becomes successful.

Knowing what you need, as distinguished from thinking you know what you need, takes effort – but one sure way to damage a small business is to bleed it for family necessities. If your business can't afford to pay you a living wage, and you have no other income or savings, you had better think your deal over again.

If you are preparing a financing plan, your banker will need the Cost of Living Budget forms to help justify your salary requirements. Remember: Be realistic.

5. Resources Available to the Business

ALL businesses, no matter how tiny, need:

1. An accountant

2. A lawyer

3. An insurance broker

If you don't have these, get them immediately!!

Other sources of assistance include:

4. Business Information Centers

5. Chambers of Commerce, Regional Planning Commissions and Councils

6. Business, trade, civic organizations often have a pool of talent available to their members

7. Small Business Administration technical assistance, ACE and SCORE programs

8. Consultants

9. Colleges, universities, schools

10. Federal, state and local agencies

11. Your Board of Directors (if appropriate)

Don't forget: your BANKER can be among the most helpful of all due to the nature of the job. If you borrow money, he or she has a vested interest in the success of your business.

You won't necessarily have to use all of these resources (except the lawyer, accountant and insurance broker), but it is a good idea to know what help will be available if you need it, and to know where it is (and who it is) well ahead of time.

By listing these resources, and making yourself known to them, you can plug many gaps in your experience and increase your chances of success. Many of them will cost you no more than time and a phone call.

Summary:

This section is intended to make you aware of the availability of management skills in your business and available to you outside your business. Since no one is perfect, there are bound to be some areas glossed over, but by keeping in mind the necessity of managing your business rather than letting the business manage you, and by constantly reviewing and re-evaluating the results of this analysis in the future, you will drastically shorten the odds against you. Keep this section short, direct, and honest.

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F. **Personnel**

Businesses stand or fall on the strength of their personnel. Good employees can make a marginal deal go; poor employees can destroy the best business. Studies have consistently shown that out of 100 customers who stop patronizing the average store, over 70 do so because they didn't get prompt, courteous attention. Here are some questions to think about in determining your hiring needs:

1. What are your personnel needs now? In the near future? In five years?

2. What skills must they have?

3. Are the people you need available?

4. Full or part-time?

5. Salaries or hourly wages?

6. Fringe benefits?

7. Overtime?

8. Will you have to train people? If so, at what cost to the business (both time of more experienced workers and money)?

Be careful – training personnel can be a hidden cost that you haven't counted on.

One excellent personnel control is the job description. Hire people only when it will result in added profitability to your business, and think before hiring whether the job is really necessary. If it is, then careful selection of a person to fill the job will more than repay the time and effort involved in hiring the best person for that job. There are standard application forms you may find useful in the selection process. You should also check with the SBA for their booklets on personnel management as well as your local Department of Employment Security and perhaps get a copy of "Personnel for the Small Business" from the Small Business Reporter, Department 3120, Bank of America, San Francisco, California, 94120.

G. Application and Expected Effect of Loan

This section is important, whether you are seeking a loan or planning to finance your deal yourself. In determining how much money you'll need and for what purposes it will be used, do not rely on guesses when exact prices or firm estimates are available. If you must make an estimate, specify how you arrived at your figures. It may be helpful to make a three-column list:

<u>Bare Bones</u>
What you can just scrape by with – secondhand, makeshift, the bare minimum.

Examples: Bicycle with large basket (Schwinn at $12.50), used desk at $7.00.

<u>Reasonable</u>
What you will most likely get – some new, some used, some fancy, and some plain.

Examples: Pick-up truck with insulated camper adapted to icing fish (used Ford at $1,885), renovated desk at $25.00.

<u>Optimal</u>
What you'd like if money were no problem and you weren't worried about making a profit.

Examples: Custom-made El Dorado with mobile refrigerator unit (Cadillac custom at $18,500), custom teak desk at $1250.00.

Fill out the Bare Bones and Optimal columns first, then make your reasonable choice. It may be important to you to have a luxury item or two, but weigh the cost. This tabular worksheet is particularly useful for a start-up business and can be used whenever a purchase of additional equipment is contemplated. Make sure that this section contains responses to the following:

1. How is the loan or investment to be spent? This can be fairly general (working capital and new equipment, inventory, supplies).

2. What is/are the item or items to be bought?

3. Who is the supplier?

4. What is the price?

5. What are the specific model name and/or number of your purchase(s)?

6. How much did you (will you) pay in sales tax, installation charges, and/or freight fees?

Your banker may be interested in using whatever it is that you are buying as collateral for the loan. By having a list, your loan can be processed faster.

You should consider the possible advantages of leasing some of the capital equipment you need and definitely look into the advantages of renting rather than owning your business building. If you have the money to buy, owning may (or may not -—ask your accountant) be less expensive than leasing, but if you are short of cash, a lease arrangement may enable you to ease your cash problems by lowering your investment in fixed assets (perhaps a sale/lease back deal). Leases also have greater flexibility: as your business grows, you can often make changes more readily. It is also possible to save money on taxes by deducting lease payments as business expenses. The technique of BREAK-EVEN ANALYSIS is of great help in making a decision of this kind.

Most importantly, ask yourself:

7. How will the loan make your business more profitable?

Interest is an expense which reduces profits. If you propose borrowing money or investing your own, you must know how the money is going to work for you.

MAKE SURE IT EARNS MORE THAN IT COSTS

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